

House of Commons

Science and Technology
Committee

**NATIONAL ENDOWMENT FOR
SCIENCE AND TECHNOLOGY AND
THE ARTS: A FOLLOW-UP:
Government Response
to the Committee's Sixth Report of
Session 2001–02**

**Second Special Report of
Session 2002–03**

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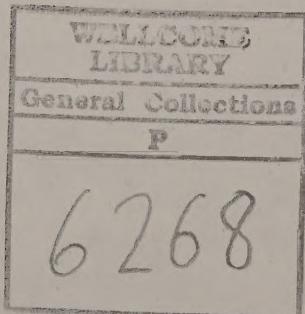
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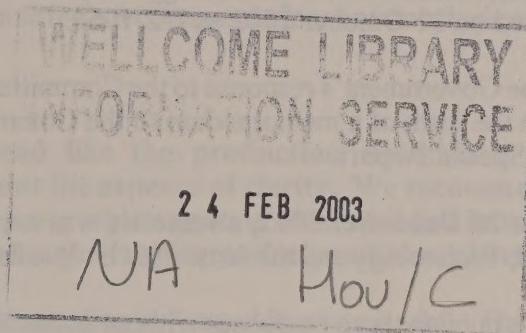
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SECOND SPECIAL REPORT

The Science and Technology Committee has agreed to the following Special Report:

NATIONAL ENDOWMENT FOR SCIENCE, TECHNOLOGY AND THE ARTS: A FOLLOW-UP: GOVERNMENT RESPONSE TO THE COMMITTEE'S SIXTH REPORT OF SESSION 2001–02

1. The Science and Technology Committee reported to the House on The National Endowment for Science, Technology and the Arts in its Sixth Report of Session 2001–02, published on 31 October 2002 as HC 1064.
2. The Government's response to the Committee's Report was received on 18 December 2002 in the form of a memorandum to the Committee. This is reproduced as Appendix 1 to this Special Report.
3. On 20 December 2002, a response was received from the National Endowment for Science, Technology and the Arts. This is reproduced as Appendix 2 to this Special Report.
4. We publish these responses without comment, so that they are publicly available.

APPENDIX 1

THE GOVERNMENT'S RESPONSE

Introduction

The Government welcomes the opportunity to respond to the Committee's report on the National Endowment for Science, Technology and the Arts. The Committee's inquiry has identified a number of issues which it will be important to address as NESTA continues to develop. In particular, the Government agrees that steps should be taken to ensure that there is greater clarity surrounding the presentation of financial information.

This response deals with each of the Committee's recommendations and conclusions in turn.

Provision of Information

1. Annual Reports should not read like the production notes in a theatre programme. Creativity should not be at the expense of clarity. We recommend that NESTA in future provide Annual Reports which contain clear and full information on expenditure, including awards made; the targets; and expenditure plans.

The Government agrees that clarity of information in Annual Reports is vital. The priority when scrutinising and approving NESTA's Annual Reports has been to ensure that information on expenditure, awards, targets and plans is included. The Government believes that all of NESTA's reports have provided this information, but it notes the Committee's observations about style and will discuss this with NESTA during the preparation of the next report. The Summary of Accounts in each report has been approved by the Comptroller and Auditor General and full Annual Accounts, similarly approved, are published separately.

2. We urge NESTA to make greater use of its website in conveying important information to those seeking to evaluate its work.

The Government agrees with the Committee and is pleased to note that NESTA has recently redesigned its website to provide better information about its programmes, application processes and awards. NESTA has now published its Annual Accounts on its website.

Invention and Innovation

3. We are encouraged to see that NESTA's Invention and Innovation programme has produced its first commercial success. We hope that it will continue to see a return on its investment as projects come to fruition and recommend NESTA state clearly in its annual reports the level of return it achieves.

When NESTA was established there was a clear expectation that over time it would achieve a return on its investments. The Government is, therefore, pleased that NESTA has achieved its first return. It agrees that information on returns should be disclosed in future annual reports and accounts.

4. We encourage NESTA to continue to take chances with its Invention and Innovation projects. The Government welcomes the Committee's exhortation that NESTA should continue to take risks as this is exactly what NESTA was set up to do. The Government accepts that this means some ideas will come to naught, but is pleased to note that NESTA is committed to learning lessons from all its investments irrespective of their ultimate success.

Fellowships

5. There is a risk that targets might lead to the appointment of NESTA Fellows for the sake of it.

The Government agrees that, for programmes like Fellowships, targets should be aspirational and not adhered to rigorously. However, it believes that it is appropriate for a public body with finite resources to set targets for all its programmes. There is no evidence to suggest that NESTA's targets for the number of Fellowships have led to appointments for the sake of it. For example, there is no evidence of an upturn of awards towards the end each financial year which might be expected if this was the case. The Government is satisfied that NESTA's assessment process is rigorous and that the quality of awards is high.

6. We urge NESTA to identify the objectives of the Fellowships, and the basis of its monitoring and assessment of them, and to carry out an appraisal of its Fellowship programme once the first awards are completed.

The objectives of the Fellowship programme have been clearly stated by NESTA, for example in its Annual Reports and on its website. However, the Government recognises that, of the three NESTA programmes, the outcomes of the Fellowship programme are more difficult to define given that awards are not necessarily made on the basis of an expectation of a tangible outcome or product at the end of the award period. The benefits of the programme are likely to become more evident over the longer term, and the Government will expect NESTA to continue to monitor this and to carry out a formal evaluation leading to a published report in due course.

Education

7. NESTA's Education programme appears to have found a niche in an overcrowded market and we are pleased to hear of its successes. We recommend that NESTA take steps to ensure that it is not funding projects which could be better funded by others.

The Government welcomes the Committee's recognition of the success of the Education programme. It believes that NESTA's education projects serve a real and valuable purpose. The Government agrees that it is important that NESTA continues to focus on funding innovative and worthwhile projects that others cannot fund.

8. NESTA covers science, technology and the arts. We recommend that NESTA give close attention to the distribution of its awards between those sectors as well as the quantity.

While the Government supports NESTA's contention that one of its strengths lies in breaking down the barriers between science, technology and the arts, it agrees with the Committee that NESTA should monitor the distribution of awards across the three disciplines. NESTA has been asked to ensure that mechanisms are in place to do this as soon as possible. The Government is concerned to ensure that monitoring the distribution of awards should not be taken to imply that there should be quotas for each discipline. It believes that NESTA's priority should be to fund projects of quality and potential irrespective of discipline, including those which cut across disciplines.

Nomination of Fellows

9. We understand that NESTA's nomination system is designed to avoid a flood of applications which could overload its administrative capabilities. We have not heard any evidence of problems with applications to NESTA's Fellowship programme but we are nevertheless concerned that it lays the organisation open to accusations of networking or favouritism. Those who are not working in areas which have a nominator appointed within it, or do not move in the same circles, may not be given access to a Fellowship. We recommend a rethink of this system to ensure it does not discriminate against any suitable candidates.

DCMS' memorandum to the Committee submitted in June 2002 made it clear that, while it was generally satisfied with NESTA's awards processes, it shared some of the Committee's concerns about the nominations system for Fellowships. The Government welcomes the steps that NESTA has taken to increase the diversity of its nominators; to boost geographical distribution by the employment of talents scouts; and the piloting of Dream Time which has an open application system. As the Committee notes, the selection process has not been subject to undue criticism and the Government would not, therefore, recommend that NESTA considers radical reform at this stage. However, NESTA has been asked to monitor the position closely and to act quickly should any evidence of favouritism or lack of diversity come to light.

Science Year

10. We recommend a thorough analysis of Planet Science [Science Year] be carried out as soon as practicable, and an assessment of its impact in the media and in schools made to inform future projects of this nature.

Assessments of the impact of Science Year in the media and in schools are extremely positive. Between September 2001 and September 2002 Science Year generated 1700 pieces of press coverage. Evaluation exercises, carried out with teachers visiting the Birmingham Education Show in March 2002 found that 78% of teachers had heard of Science Year. In addition, many Science Year projects have seen excellent response rates, with approximately 50% of secondary schools having registered to receive the free ASE Science Year CD-roms and all 9,000 pieces of free equipment donated to the Kit Pot by the Royal Society having been sent out in response to applications from schools. The Planet Science team have recently completed an evaluation of Science Year. The DfES are commissioning its own evaluation of Science Year and Planet Science, to be completed by the end of 2003/early 2004.

Expenditure

11. We recommend that NESTA be clearer in its terminology when presenting financial information.

The financial terminology used by NESTA in its Annual Accounts fully complies with the requirements laid down in its Accounts Directions which have been approved by HM Treasury and the National Audit Office. The Government is satisfied that NESTA's Annual Accounts, approved by the Comptroller and Auditor General, have given a clear and accurate picture of its financial position. The Government notes that the Committee found it difficult to interpret the written and oral evidence, but believes that confusion may have arisen because of the use of largely incompatible information sources. NESTA will be asked to ensure that all financial information, wherever it appears, is compatible with its Annual Accounts.

12. We are disturbed at NESTA's lack of clarity surrounding its programme expenditure. We expect the next Annual Report to provide reliable figures, making it clear what has actually been spent and what is an estimate.

The figures in financial statements contained in NESTA's Annual Accounts and Reports have been independently audited by the National Audit Office. The Government is, therefore, satisfied that the figures are reliable. However, the Government recognises the need for greater clarity on programme expenditure, and the Committee will wish to note that over the summer DCMS officials have worked closely with NESTA, the NAO and HM Treasury to agree significant revisions to NESTA's Accounts Directions. These ensure that greater distinction is made between the significant sums which NESTA spends in direct support of its awardees and its general administration costs. These were effective from the 2001/02 Accounts which were laid in October. In recognition of the Committee's concerns, NESTA has been asked to provide the Committee with a clear statement of programme expenditure for each of the years it has been in operation, cross-referenced to the relevant financial statements and reports. DCMS will also review again the Accounts Directions to ensure that all of the issues raised by the Committee have been addressed.

13. We understand that NESTA may have faced high operating costs during its development. Nevertheless we hope to see administration decreasing as a percentage of NESTA's income in the future. We also urge NESTA to make a realistic estimate of its staffing needs in order to minimise the amount spent on agency staff and permit accurate financial planning.

The Government agrees that NESTA's administration costs as a percentage of its income should decrease in future. NESTA has agreed to work with DCMS officials over the next year to develop performance indicators for administration costs. The Government agrees that NESTA needs to identify an optimum staff complement.

Endowment

14. We believe it is premature for NESTA to request a significant increase in its endowment. First it must better demonstrate its cost-effectiveness and be clear about how it would use its extra funds. It is a bit rich for an organisation getting £8 million a year to distribute in grants and bursaries, to go asking for more, when it is unable to maintain a clear grasp of how much it is spending and on what.

The Government is conscious that the Committee made this recommendation mainly because of concerns over NESTA's cost effectiveness and the way in which it has presented financial information. The Government is satisfied that NESTA's Annual Accounts provide accurate information about its expenditure and that there are no serious deficiencies in NESTA's financial position. It does agree, however, that steps should be taken to improve cost-effectiveness. The Government believes that NESTA has clearly demonstrated that it is filling a niche and believes that it is important that NESTA is able to maintain and build on its achievements so far. It has, therefore, decided to increase NESTA's endowment by £95 million. This increase is substantially less than the £300 million which NESTA originally requested, and is subject to Parliamentary approval. The increase consists of two elements: £50m to stabilise NESTA's investment income, which has fallen considerably since its inception; and a further £45m from which NESTA will be able to draw on up to £15m per year for three years to enable it to gain greater critical mass by launching a range of new initiatives. This increase will be subject to a number of conditions which will include improvements in the presentation of expenditure information across the disciplines it covers and the development of new targets for non-programme administrative expenditure.

Profile

15. We urge NESTA to make efforts to raise its profile by ensuring that it has made itself better known to all relevant organisations and higher education institutions.

The Government believes that NESTA, as a new and relatively small organisation, has been successful in establishing a positive profile. This is evident from the generally positive media coverage it has received, and the success of its website. However, in light of the proposed increase in its endowment, the Government agrees with the Committee that the time is right for NESTA to consider how it might raise its profile further.

APPENDIX 2

RESPONSE FROM THE NATIONAL ENDOWMENT FOR SCIENCE, TECHNOLOGY AND THE ARTS

Outline Response to Recommendations

We are pleased by the Committee's endorsement of our general approach and in particular by their praise for our Education and Invention Innovation Programme. We also welcome their constructive critique of certain areas of our work, such as our website, which was being substantially redesigned at the time we gave evidence to the committee, and has now been re-launched.

We have concerns that they do not seem to understand the statutory framework in which we are required to set out our accounts and we are disappointed that they do not feel we have a strong enough case for an increase in our funding from £200 million to the level originally intended—£500 million.

In the previous report into NESTA the Committee gave us serious encouragement to “go for it”. “It encouraged NESTA to take a high risk approach and suggested that NESTA should be evaluated over the long term ‘on a basis of output and value for money rather than operational cost efficiency’”. That is exactly what we have been doing and what we will continue to do. We look forward to further developing our relationship with the Committee in the future, and will work to ensure that members are kept up to date with our progress.

Response to individual Recommendations.

1. Annual Reports should not read like the production notes in a theatre programme. Creativity should not be at the expense of clarity. We recommend that NESTA in future provide Annual Reports which contain clear and full information on expenditure, including awards made; the targets; and expenditure plans.

Like many Non-Departmental Public Bodies we are governed by the Directions given to us by the Secretary of State for Culture, Media and Sport with the approval of the Treasury and in accordance with Section 23 of the National Lottery Act 1998. We have met these directions and all of our annual accounts, having been audited by the National Audit Office, have received an unqualified audit opinion, with the Comptroller and Auditor General signing off our accounts. In addition to our summary accounts, this year's annual report contains a large number of facts, including the details of every award made during the year, descriptions of all three of our programmes, details of our business plan and our performance against the targets set, and full details of our plan for the coming year.

As an organisation which was set up to promote and nurture creativity and innovation, it is important that these values are evident in everything we do—including our annual reports. However, we agree with the Committee that this must not be at the expense of clarity. We also have to be conscious that the report's readership will be spread right across the arts, science and technology and it is therefore important that we set out to capture the imagination of people in a wide range of fields.

It is not unusual for small public-sector bodies to publish summary, rather than full accounts in their annual reports. We took this decision following the fullest possible discussions with DCMS and the National Audit Office. However, our full accounts are published on our website and are available in hard copy on request.

2. We urge NESTA to make greater use of its website in conveying important information to those seeking to evaluate its work.

We agree that, at the time of the Committee's inquiry, NESTA's website was not as clear or user-friendly as it might be, although there was a substantial body of information contained on the site, sufficient to allow our work to be evaluated. At the time we gave evidence to the Committee, we were in the process of substantially redesigning the site. The new site was launched in October 2002, and it is a considerable improvement. It now contains all the information our stakeholders might need to evaluate our activity—including full accounts. We are, however, always eager to receive suggestions as to how it could be further improved.

3./4. We are encouraged to see that NESTA's I&I programme has produced its first commercial success. We hope that it will continue to see a return on its investment as projects come to fruition and recommend NESTA state clearly in its annual reports the level of return it achieves./We encourage NESTA to continue to take chances with its I&I projects.

We welcome both of these points raised by the Committee and will continue to push for further returns from our I&I projects and to take risks through the programme. To date, returns from investments have been extremely modest. However, as this income grows over the years, we will ensure that our accounts make clear all our sources of income.

5./6. There is a risk that targets might lead to the appointment of NESTA Fellows for the sake of it./We urge NESTA to identify the objectives of the Fellowships, and the basis of its monitoring and assessment of them, and to carry out an appraisal of its Fellowship programme once the first awards are completed.

We are confident that this danger has not arisen, and we note that the Committee have not said that they think it has. However, we are aware of the potential for this to become a problem in the future. We will therefore continue to keep it under review. We have a rigorous set of standards that all NESTA Fellows must match up to, and we will continue to see that these are met even if this means that, from time to time, we fall short of numerical targets.

The objectives of our fellowship programme are clear, and are set out in full on our website. We have carried out an evaluation of our fellowship programme, and as a result have made a number of changes to it, such as using organisations as nominators, and piloting a number of different nomination approaches. We have also recently piloted "Dream Time" Fellowships, which were awarded following an open application process. We will continue to keep the programme under review as we move forward as an organisation.

As regards the NESTA fellows themselves, each award has clear objectives, written into the agreements between fellows and NESTA. The detail of these objectives will vary with the individual circumstances of the individual being supported. Funding is contingent on these objectives being met over the course of the fellowship.

7. NESTA's Education programme appears to have found a niche in an overcrowded market and we are pleased to hear of its success. We recommend that NESTA take steps to ensure that it is not funding projects which could be better funded by others.

We welcome the Committee's endorsement and will continue to ensure that we supplement and do not mirror other funding programmes.

8. NESTA covers science, technology and the arts. We recommend that NESTA give close attention to the distribution of its awards between those sectors as well as the quantity.

While obviously we need to ensure that we fund a range of different types of project, we do not feel that any simple quota of science, technology and arts awards is the best way to achieve this. In addition, one of the distinctive things about NESTA is that we seek to support projects that cross traditional arts/science boundaries. In the course of consultations to develop our new strategic plan, we have been strongly encouraged to continue to be as imaginative as possible in bringing together these traditionally disparate disciplines. Our portfolio of awards shows that we support a wide range of projects, and we will continue to support creativity and innovation wherever we find it. As the Committee pointed out in its comments on our Fellowship Programme, it would be wrong to set targets at the expense of quality and standards. We will continue to support the best people and ideas, irrespective of the discipline in which they currently work.

9. We understand NESTA's nomination system is designed to avoid a flood of applications which could overload its administrative capabilities. We have not heard any evidence of problems with applications to NESTA's Fellowship programme but we are nevertheless concerned that it lays the organisation open to accusations of networking or favouritism. Those who are not working in areas which have a nominator appointed within it, or do not move in the same circles, may not be given access to a Fellowship. We recommend a rethink of this system to ensure it does not discriminate against any suitable candidates.

We are pleased that the Committee could find no evidence of criticism of the effectiveness of our nominators. Indeed, evidence to the Committee from the Particle Physics and Astronomy Research Council commended this process. Our nomination system is a procedure that was set up after much public consultation and we constantly review its continuing effectiveness. Even though we have introduced other methods of applying to this programme we are positive that it remains an effective method of funding.

Its primary purpose is not, in fact, to avoid administration overload though it does have this beneficial side effect. Its origin is in the overwhelming conclusion from our consultation that the best way to identify new talent is to back the judgement of those who have a significant track record of achievement in their field, but who also remain closely in touch with the leading edge developments in that field.

Given that only one of our Fellowships has yet run its course, and that there is currently no evidence of nominations not working as an effective way of selecting our fellows, it would be premature to alter the system radically at this stage. As set out elsewhere, we have carried out an evaluation of our fellowship programme, and as a result we have made a number of changes to it, such as using organisations as nominators, and piloting a number of different nomination approaches. We have also recently piloted "Dream Time" Fellowships, which were awarded following an open application process.

10. We recommend a thorough analysis of Planet Science be carried out as soon as practicable, and as an assessment of its impact in the media and in schools made to inform future projects of this nature.

Planet Science has been undertaking evaluation since its outset and it has continually consulted teachers and young people about the detail of the programme. A report, which will include programme and media evaluation, will be submitted to the DfES in the new year. We are confident that the recent extension of Planet Science by DfES is an early indicator of its success. However, as we have been delivering Science Year/Planet Science under contract for DfES, it will fall to them to decide, in the final analysis, whether the

project has been all they hoped for. We are confident, however, that they will be as proud of its success as we are. There is even the possibility it will be replicated in other subject areas.

11. We recommend that NESTA be clearer in its terminology when presenting financial information.

In common with many Non Departmental Public Bodies, much of our terminology is specifically prescribed by the Accounts Directions given to us by the Secretary of State for Culture, Media and Sport with the approval of the Treasury and in accordance with Section 23 of the National Lottery Act 1998. As such we have very little discretion in the terminology used in our presentation of financial information. We regret that the Committee had difficulty understanding this terminology, and we will review the explanations we provide in our Annual Reports in an effort to make them more easily comprehensible.

12. We are disturbed at NESTA's lack of clarity surrounding its programme expenditure. We expect the next annual report to provide reliable figures, making it clear what has actually been spent and what is an estimate.

We believe that all of our annual reports contain detailed and reliable information on every awardee including costs. We stand by all of our annual reports and their accuracy, as do the National Audit Office who have signed off each set of accounts. We can only stress that, like all Non Departmental Public Bodies we are governed by the Accounts Directions given to us by the Secretary of State for Culture, Media and Sport with the approval of the Treasury and in accordance with Section 23 of the National Lottery Act 1998. We are obviously concerned that the committee had difficulty reconciling the financial information they pulled together from a variety of different sources. To address this concern, we will be writing to the committee in the new year with a clear statement of programme expenditure for each of the years we have been in operation, cross-referenced to the relevant financial statements and reports.

13. We understand that NESTA may have faced high operating costs during its development. Nevertheless we hope to see administration decreasing as a percentage of NESTA's income in the future. We also urge NESTA to make a realistic estimate of its staffing needs in order to minimise the amount spent on agency staff and permit accurate financial planning.

Regardless of the size of a public body, there are certain fixed costs attached to its running. For relatively small bodies such as NESTA, these costs are higher as a proportion of turnover, especially in the early years of their existence. We are glad that the committee acknowledge this. We anticipate that our administration costs will continue to decrease year on year as a proportion of turnover, as they have in each year of our existence.

We have made a realistic estimate of our staffing needs, and as a result have agreed with DCMS that the "cap" of 35 members of staff is no longer realistic, given our growing operations. As regards agency staff, we feel that it is at times more cost-effective to employ staff on agency contracts for short periods to deal with times of particularly high organisational work-load. However this, as with all staffing, is done in the context of the need to maximise the amount of support we give to awardees, and minimise the amount spent on administration.

14. We believe that it is premature for NESTA to request a significant increase in its endowment. First it must better demonstrate its cost-effectiveness and be clear about how it would use extra lottery funds. It is a bit rich for an organisation getting

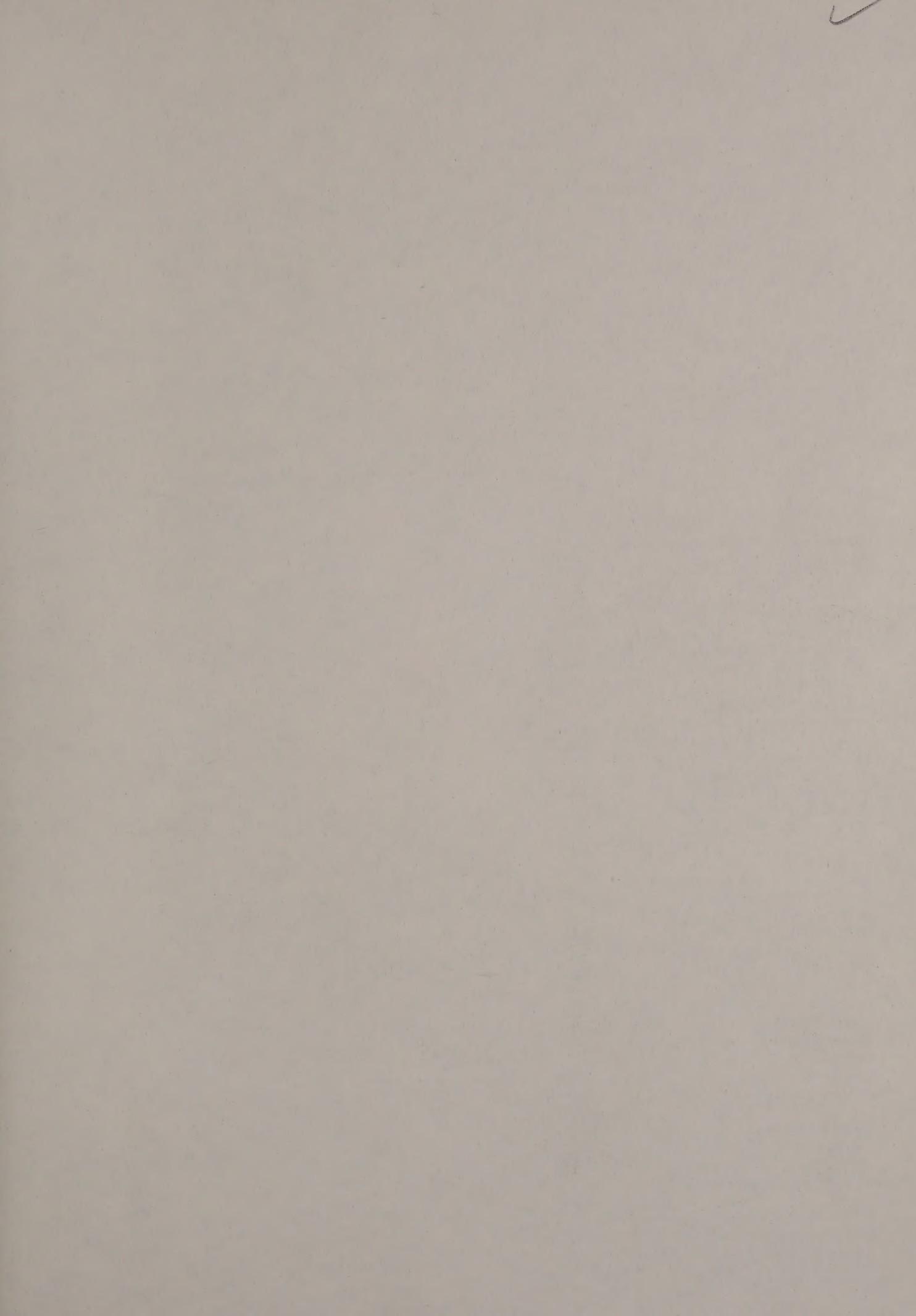
£8 million a year to distribute in grants and bursaries, to go asking for more, when it is unable to maintain a clear grasp of how much it is spending and on what.

We continue to feel that we have made a compelling case for additional funds, and we feel that the Committee's conclusion is based on a false premise. We are glad that the Secretary of State for Culture, Media and Sport has recently announced her intention to award us additional funding, and believe that this vindicates the strength of our case. We stand by the information which is contained in our accounts, and which has been approved by both the National Audit Office and the Department for Culture Media and Sport. There is no question of our not having a firm grasp of our finances.

15. We urge NESTA to make efforts to raise its profile by ensuring that it has made itself better known to all relevant organisations and higher education institutions.

We have continued to increase our media coverage and visits to our website. This has been backed up by a NESTA bulletin and an email newsletter that have recently been successfully piloted to nearly 3,000 people across the arts, science and technology sectors. From the outset, NESTA's promotional strategy has been to focus on the projects we support, and actively promote their stories and the benefits they bring to their local communities. The cost of this policy is that, *as an organisation*, we are much less widely known than might otherwise be the case. However, the benefit is that we have achieved over 1000 pieces of press coverage for our *projects*, 98% of which have been positive "good news" stories. Almost all have mentioned NESTA, and a great many have mentioned our historical link to the lottery, but very few have been stories "about NESTA"—they are almost all stories about our awardees. We believe that this has been the right approach for us to take at this stage of our development. We have no evidence that this has prevented us being well known to potential awardees—including those based in higher education institutions. However, as we continue to develop as an organisation we will review this strategy. We have piloted a model of regional representation in the North West region, which has as a priority the promotion of NESTA to relevant organisations, and higher education institutions, in the region. We are currently evaluating the success of this pilot, and hope to establish a greater NESTA presence in the Nations and English regions in the new year.

It is important to bear in mind that greater presence in the nations and devolved nations, or any activity to further increase our profile, will entail a cost. There is an obvious tension between this and our determination to minimise the amount we spend on administration. We will, of course, ensure that any further activity in these areas is cost-effective, and that we continue to maximise the amount of support we give to the people we were set up to help.



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